



The Fertilizer Institute

Nourish, Replenish, Grow

Testimony of

Alex McGregor

President

The McGregor Company

Before the

U.S. House of Representatives Agriculture Committee

Regarding

**The 2007 Farm Bill and an Overview of Challenges Faced by
Farm Families and the North American Fertilizer Industry**

DESCRIPTION OF TESTIMONY

Consequences of the energy crisis for family farms and the
fertilizer industry and suggestions for addressing them.

September 13, 2006

Chairman Goodlatte, members of the House Agriculture Committee, thank you for scheduling this hearing. It comes at a time when the farm families who are stewards of 97 percent of the arable acres back home—and who represent one of the last and finest bastions of family business—are facing severe hardships. My name is Alex McGregor and I am president of The McGregor Company, a business that serves two thousand dryland wheat, legume, and barley growing families in the inland Pacific Northwest and families who grow potatoes, corn, and many other crops in the adjacent Columbia Basin. I'm speaking on behalf of The Fertilizer Institute (TFI), an organization that represents plant food manufacturers and retailers throughout the country.

My thanks to you, Mr. Chairman, for taking the time to come to my region last October to hear concerns of farm families who had just then encountered a severe energy crisis as fuel and nitrogen prices soared in the aftermaths of Hurricanes Katrina and Rita. I'm from a farm family, too. We've raised wheat and livestock for 125 years and I'm an active member, and past president, of the Washington Association of Wheat Growers. The McGregor Company has 350 full-time employees who have dedicated their careers to serving growers in 43 farm communities. We've been around agriculture long enough to know that, if farmers succeed, so do we. Right now, they are facing a severe crisis and we are compelled to seek your help. Businesses such as ours, schools, and the future of rural towns—all depend upon the survival of family farms.

We hear of hardships being faced by farmers every day in the farm towns we serve: cautious bankers reluctant to provide operating lines; growers who have had to 'let go' farm help and raise crops on thousands of acres single-handedly; farmers selling equipment or land to raise cash; farmers who have had to tell their children to seek more profitable employment in cities; growers who have had to pledge the cash value of their life insurance to get a loan; and dedicated middle-aged farmers who fear running out of equity and whose hope and cast-iron optimism are just about gone. We lost three or four growers in each of the 43 towns where we do business last year, and we fear the pace will accelerate without immediate help.

While there are many strengths in the current farm bill, strengths which can be built upon, the lack of an effective safety net to cushion through down cycles has meant that record numbers of producers are falling through holes in the netting and drowning in red ink or bailing out before they lose the last of their equity. "I've farmed here since 1952 and this is the worst emergency we've known in my lifetime. We truly need assistance and we need it now," a long time customer commented recently. His counterpart, from the same small town of Oakesdale, Washington, talks of his family having "farmed in the Palouse for over 125 years. We worked through the Panic of 1893 and survived the depression years of the early thirties but over a century of sweat and hard work will be in vain without some form of immediate help." A Colfax, Washington grower told me last week that "I have three farmers around me who hung it up this fall. There are many others who are on the verge. If there **ever** was a time when a safety net has been urgently needed, this is it!"

I agree with Agriculture Secretary Johanns' comment last month that "one of those [program] crops, wheat, has really had a rather challenging time of it... You don't collect LDP and countercyclical [payments] with this current farm bill. You may prove me wrong a year here or there, but they really have been on the short side of this Farm Bill." We feel this statement has

been particularly applicable to growers of soft white wheat, the predominant class grown in my region, since USDA set loan rates by class. The loan rate set for soft white wheat is far below the producer's cost of production which nullifies the intended safety net of the LDP. In addition, the counter cyclical calculation still remains an average of all classes of wheat which removes any hope for assistance from this feature of the Farm Bill.

Recent high energy costs have created an unanticipated shock to the farm economy: the Food and Agricultural Policy Research Institute (FAPRI) estimates that fuel prices have increased 113 percent, and fertilizer costs 70 percent, since 2002. It is not economically sustainable for growers to have to pay more for a gallon of fuel than they receive for a bushel of grain! A sixty-six year old woman I know had just been paid \$2.92 per bushel for her wheat crop last fall before filling her car at a service station where she paid \$2.99 per gallon for the fuel. She commented that it was the first time she ever remembered paying more for a gallon of fuel than her family received for a bushel of grain. Many others were to make similar discoveries. Such circumstances last happened in the bleakest years of the Great Depression when my family sold its wheat for 24 cents a bushel. We kept the horses and mules a few more years back then and let the tractor sit. Today, sadly, too many have been forced to conclude that the only option they have is to sell out and leave their farms.

We've been working through TFI and the Agricultural Energy Alliance, a group of more than a hundred farm organizations and agricultural businesses, to call attention to the impact the natural gas crisis is having on farm families and those of us who serve them. Natural gas—which is combined with atmospheric nitrogen to convert the latter into a usable product—represents seventy to ninety percent of the production cost of ammonia, a nitrogen source itself and the building block for other nitrogen products. With the cost of natural gas increasing from the \$3 range in 2002 to as high as \$15 late last fall, while costs elsewhere in the world remained low, farm families and the fertilizer industry have been crippled. We've lost 24 nitrogen production plants that have closed since 1998 and ammonia production has fallen 35 percent. Abundant U.S. reserves in the Gulf of Mexico, where a network of pipelines and infrastructure is already in place, could be rapidly brought on line.

Mr. Chairman, and members of the committee, even though energy legislation is not in the jurisdiction of the Agriculture Committee, we urge you to communicate to the House leadership to move quickly and reconcile H.R. 4761, the Deep Ocean Energy and Resources Act, and S. 3711, the Gulf of Mexico Energy Security Act, as soon as possible before the adjournment of the 109th Congress. It is critically important to the farmers we serve and to our industry that these bills be reconciled, passed, and signed into law before Congress adjourns for the November elections! The future of farm families and those who serve them is on the line—I know of no other action that could better help us ensure affordably priced plant food for the American farmer for the next several years. We appreciate interest in alternative fuels but growers need help for the here and now. “We’ve got to survive the short term so our families will still be here to take advantage of whatever long range improvements come down the road,” growers tell me. As a grower I know puts it: “We need dependable domestic supplies of energy until we achieve a world where alternative sources are a reality.”

We urge your support for emergency disaster assistance to help combat severe weather related calamities and the economic consequences of the brutal and unprecedented upward spirals in

energy prices that none of us anticipated in 2002. Unlike other industries, those who produce foodstuffs cannot pass along higher input costs or add fuel surcharges like they receive both for incoming goods or outbound crops. I remember an elderly woman saying to me, “my husband and I have been farming for fifty years. He doesn’t want to put the place into CRP. But is there any hope?” By acting now on emergency energy disaster relief and in opening up at least a portion of the 85 percent of natural gas reserves currently off limits, we will be able to assure farm families, and their bankers, that their representatives in Washington, D.C. are taking positive steps to help them at a critical time.

Though the growers my industry serves would rather depend on the markets than government assistance for their livelihoods, they need a level playing field in a global marketplace where many trading partners support their farmers at a much higher level than do we. I remember your observation, Mr. Chairman, when you met with us in Ritzville, Washington last year that if global trade talks don’t yield results additional assistance may be necessary to help farm families compete globally. The current impasse makes us realize how vital it is that heed be paid to the letter your counterpart in the Senate, Chairman Chambliss, sent to the Budget Committee of that body earlier this year urging no new reductions in Agriculture Committee mandatory spending and adequate funding for discretionary spending. A tall order, indeed, but necessary if farm families and communities are to persevere.

Taking off my TFI hat for a moment and speaking personally as a Washington wheat grower, I’ll offer a few suggestions. While grower organizations are not yet ready to commit to any one proposal, placing more program emphasis on direct payments would provide the most reliable cash flow of all program components and would greatly help producers secure operating credit. It should also help us comply with international trade obligations. A target price more aligned with today’s market conditions or a counter cyclical program based on revenue rather than price alone would help shore up some of the missing fibers in the safety net. Commodity neutrality—supporting each commodity to the same level of production cost—should be restored in the 2007 legislation. To combat what was not anticipated in 2002—wildly gyrating energy costs—perhaps an energy component could provide assistance should average farm energy costs, as calculated by NASS or USDA, spike beyond 10 percent upward in a crop year.

Conservation programs are important supplements to farm program safety nets and we hope they continue as authorized but with full funding. Growers back home have done all that could be asked of them—they’ve tripled yields in half a century, reduced waterborne soil erosion by more than 80 percent, reduced windblown dust by 600 percent and reduced stubble burning by 4,000 percent – the biggest gains in productivity and stewardship since wheat was first sown 11,000 years ago. It’s a success story in so many ways—for consumers, for the regional and national economy and, once in awhile, for the farm and ranch families who have made it all possible.

The oft-stated hope that the Conservation Security Program (CSP) would “reward the best and motivate the rest” has bogged down with inadequate funding and complex and bureaucratic administration. Perhaps allowing a base funding equal to 25 percent of a direct payment could be offered to those who would answer affirmatively, subject to possible NRCS inspection, some basic questions such as “Do you use soil conserving practices appropriate for your region?” Beyond the base payment, further enhancements are already in place in CSP and we hope adequate funding is put in place to make them accessible for farm families.

The frustration level with CSP funding and administration is near the boiling point in several farm districts back home. Complex and daunting rules, NRCS personnel who already have plenty on their plates and may lack agronomic familiarity with the challenges faced in the field, and a sense by growers that they may stumble without help on some obscure technicality and thereby be bypassed for a very long time until their watershed is again selected—there is ample room for making the process more user friendly.

Crop input retailers like our company can help, not on the auditing side, but by assisting as Technical Service Providers (TSPs) for producers who wish them to do so. We have on board sixty well trained Certified Crop Advisers in my company alone, and thousands more with other firms across the country, and we provide technically specialized one-on-one assistance to farmers, helping them develop site specific nutrient management and cropping plans. Skeptics who have raised the “conflict of interest” charge at NRCS rulemaking sessions don’t understand that crop advisers work in small communities with farm customers they know well, that relationships of trust are built over many years and that they shatter easily if bad or self-serving advice is offered or if misunderstandings occur. Where crop advisers, who spend much of their time in the field with growers, can be of help—and where a producer so chooses—we can lighten the CSP and Environmental Quality Incentive Program (EQIP) administrative burden and help the grower determine how to meet the objectives of a conservation program.

We strongly support an emphasis upon agronomically sound nutrient management plans. Conservation of the soil requires appropriate yields, which necessitates adequate nutrients to replenish what has been used to produce previous crops. The ‘soil conditioning index’ that is the basis for ratios such as STIR and RUSLE is based in part upon yield—an indicator of the amount of residue that will be available to protect the soil. Offering incentives for input reduction is a poor alternative to rewarding conservation. As any grower will tell you, fertilizers are expensive and they aren’t about to use more than necessary to replenish the soil. “One size fits all” plans don’t fit when management strategies vary markedly, often within a very confined geography. The agronomists at one of our branches serve growers whose annual rainfall varies from eight inches in the lowlands to 25 inches in the foothills several miles away. Nutrient needs, yield potential, and conservation strategies vary just as dramatically.

Proper placement of fertilizer in the root zone where it will be used by the growing crop—for which we’ve designed and put in the field several generations of improved application tools—and conservation of the soil in which the nutrients are placed are the true variables that can best minimize nutrient loss. The result of technically sound nutrient management plans, designed for local conditions, is better profit potential for the producer, increased crop growth and organic matter to return to the soil, fewer nutrients left behind, and improved water quality.

There is potential, within the energy title of a new farm bill, to encourage growers to produce crops that can be used as energy sources. Bolstering the meager budgets for canola research at regional land grant schools, for example, would help in finding varieties well suited to the area my family serves. We support incentives for further research and development of renewable energy incentives, including cellulosic ethanol.

There is promise, too, in considering ‘beefing up’ funding for CCRP—continuous signup CRP—

to offer stronger incentives for buffers and filters as environmental priorities and, in the process, to lessen the need for defaulting to whole farm take-out which harms local communities and results in painful decisions to leave the farm. All would benefit: ground would be set aside where it is most sensitive, towns would not shrivel up on the vine, and Congress and taxpayers would achieve some environmental progress for the dollars invested. Desperate farmers, like the woman I quoted earlier who didn't want to put the whole place into CRP and give up the farm, would have a better chance to weather the storm.

Like the growers we serve, we've been involved in agriculture for a very long time. We've seen good and bad times and we've been resilient. As a customer of ours put it, in a letter to Congress: "We have gone through tough times before. Farmers are known for keeping their optimism, a hope for better days ahead, and our belief that the work we do to feed people here and around the world is important. But we've had a severe economic storm hit us. Our personal situation has become critical and we are running out of hope." The official USDA seal proclaiming -- "Agriculture is the Foundation of Manufacture and Commerce"—says volumes about the impact that farming and ranching have on our local, regional and national economy. A strong and well funded farm program that helps farm families succeed benefits all Americans.

In conclusion, we need your help, as members of Congress, in taking quick action to pass a consensus energy bill to ensure affordably priced nitrogen for farm families and to preserve what remains of our domestic fertilizer industry. Staggering increases in energy costs are leading to a loss of operating credit and profitability and, ultimately, to the loss of farms and farm businesses in rural America. Our customers need emergency energy disaster assistance and they need it soon. An accountant with a regional firm that serves several hundred farmers estimates that, without some relief, more farms will go out of business in the next two years than in the aggregate of the last fifteen. Another reports that the most frequently asked questions these days are: "How will I be able to afford to retire?" and "Can I, in good conscience, allow my son to pursue his dream of taking over the farm?"

We need your help so that men and women of the next generation can rationally consider careers in our field and gain the ever more complex technical expertise needed in a fast changing trade, and so we can share with them the years of experience it took us to know the land and how to care for it properly. We need your help to staunch the bleeding, to give farm families a fighting chance and to encourage young people to consider careers in agriculture. To cite just one of the dozens of letters growers have shared with me that they've sent to Congress: "These are desperate times in the farm industry and we are all reaching out for help. I would appreciate anything you can do to keep the family farm business alive."

Your help, as House Agriculture Committee members, in framing a new farm bill that fine-tunes what we have with "safety net" provisions that can help in tough times and that provides some protection against runaway energy prices is badly needed and much appreciated. We, in the farm input service industry, will do all in our power to help farmers qualify for conservation benefits and to continue to assist in wise nutrient management.

I believe homeland security must encompass the ability to produce home-grown food that meets exacting regulatory standards, the ability to produce nutrients domestically to nourish those crops, and the use of the extraordinary human and technological resources we have that allow us

to very efficiently feed fellow Americans and people around the globe. I hope these factors rank as worthwhile in your definition, too. We need to be able to offer some hope for young people, for farm families, and for the agricultural communities surrounded by amber waves of grain. Please assist all of us so we can affirm the hopes that many farmers still retain: that during times of severe hardship, they will get help. Never has there been a more important time for us to be able to go home and tell our farm neighbors: "Yes, there is hope for the future."

Thank you, Chairman Goodlatte and members of the committee for your leadership in addressing the critically important issues facing America's food producers and the agricultural businesses that serve them. Respectfully,

Alex McGregor

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Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Alex C. McGregor
Address: P.O. Box 740 Colfax, WA 99111
Telephone: (509) 397-4355
Organization you represent (if any): The Fertilizer Institute

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: _____

Signature: Alex McGregor

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

Alexander C McGregor

Alex McGregor is President of The McGregor Company, a farm supply business with 350 employees and offices in more than three dozen rural communities of the Inland Northwest.

He also heads McGregor Land & Livestock, 125 year old eastern Washington wheat and livestock ranch. The firm was honored as a "centennial corporation" this summer by Washington Secretary of State Sam Reed as one of the oldest incorporated businesses in the state.

Alex has served as a member of the board of The Fertilizer Institute. He is past president of Washington Association of Wheat Growers (WAWG). He is also the recipient of the first WAWG "Outstanding Member of the Year" award. Alex was selected by the Washington Agriculture and Forestry Education Foundation as the "Stu Bledsoe Award" recipient for his leadership in natural resources industries. He's currently a board member of the Washington State Historical Society.

Alex's fellow employees have earned numerous awards for environmental stewardship. Thirteen McGregor branches have won state Environmental Respect Awards, nine have earned Regional honors and five, including the Garfield and Dayton, Washington branches in 2005 & 2006, have been nationwide winners. McGregor's firm has also earned the Governor's "Pollution Prevention Award" and the 2004 "Environmental Innovators of the Year Award" from the Association of Washington Businesses.

The McGregor Company was selected in 2004 as the "National Family Business of the Year" by the Family Enterprise Institute. It was recognized as the "Washington Family Business of the Year" in 2003.

Alex earned his bachelor's degree from Whitman College; his masters & PhD from the University of Washington. His book, Counting Sheep, a history of agriculture in the Inland NW, was chosen as one of the top one hundred "centennial books" written since Washington became a state. Alex taught history at the University of Washington & at Whitman College before joining his family firm.